

## NOTE 14 – LONG-TERM LIABILITIES

### A. Bonded Debt

#### General Obligation Bonded Debt

Article 9, Section 15, of the State Constitution authorizes general obligation long-term borrowing, subject to approval by the Legislature and a majority of voters at a general election. In addition, debt may be incurred without voter approval for the purpose of providing loans to school districts. General obligation notes to provide temporary financing for such loans are recorded as liabilities in the School Bond Loan Fund, a special revenue fund. No such borrowing occurred in fiscal year 2000-2001. General Fund appropriations are made to finance debt principal and interest requirements for all general obligation issues. General obligation bonds are backed by the full faith and credit of the State.

The State Constitution provides that the Legislature may also authorize the issuance of general obligation short-term notes, the principal amount of which may not exceed 15% of undedicated revenues received in the preceding year. The State Constitution also provides that such notes must be repaid within the fiscal year of the borrowing. No such borrowing occurred in fiscal year 2000-2001.

#### Revenue Dedicated Bonded Debt

Long-term bonds have been issued periodically for specific purposes, with the stipulation that financing of debt requirements is to come strictly from designated revenue sources. The transportation related debt is payable solely out of funds restricted for transportation purposes by Article 9, Section 9, of the State Constitution. The State's general credit does not support such issues.

The Michigan Underground Storage Tank Financial Assurance Finance Authority issued revenue bonds to provide financing for the activities of the Michigan Underground Storage Tank Financial Assurance Fund (MUSTFA). The bonds and notes are a limited obligation of the Authority payable solely from dedicated revenues and do not represent a general obligation of the finance authority or the State.

Revenue bonds have been issued by the State Building Authority (SBA) to acquire and/or construct various facilities for use by the State or institutions of higher education. Revenue bonds have also been issued to finance equipment capital lease refinancings and acquisitions. The \$307.4 million of

commercial paper notes outstanding at year-end are not recorded as liabilities in the Authority's statements, but are included in the "long-term liability activity" schedule presented later in this Note.

Subsequent to September 30, 2001, SBA issued an additional \$146.1 million in commercial paper. However, a significant portion of outstanding commercial paper has been paid by the issuance of the 2001 Revenue Bonds Series II in the amount of \$170.1 million. Stated coupon rates for these bonds range from 3.0 to 5.5 percent, which mature on October 15, 2019. These bonds and notes are limited obligations of SBA and do not constitute general obligations of SBA or the State. The debt requirements of the bonds are financed through General Fund appropriations, excess bond proceeds, and investment earnings.

Grant anticipation notes have been issued by the Department of Transportation (MDOT) in the amount of \$400.0 million. The notes have variable rates that may bear interest at a daily interest rate, a weekly rate, note interest term rate, long-term interest rate, or an ARS interest rate.

The notes are issued in accordance with the authorization provided in P.A. 51 of 1951, as amended. The proceeds of the sale of the notes together with investment earnings on the proceeds and other available monies will be used to pay a portion of the costs to complete the Build Michigan II highway program, to pay capitalized interest on the notes, and to pay note issuance costs.

The principal and interest on the notes are payable solely from and are secured by an irrevocable pledge of the State share of all federal grants received each year under the Federal-Aid Highway Program. Payment of the principal and interest on the notes from the State share shall be subject to an appropriation each year by the Legislature in an amount sufficient to make the payments. As of September 30, 2001, there were no principal payments made on the notes. The amount outstanding at September 30, 2001, is \$400.0 million and is not disclosed in the table below. These notes mature in 2008.

Note 15 provides disclosures regarding the bonds and notes payable of the discretely presented component units.

#### Bonds Issued and Outstanding

General obligation and revenue dedicated bonds issued and outstanding (excluding defeased bonds) at September 30 (in millions) are as follows:

General Obligation and Revenue Anticipation Bonds Issued and outstanding (excluding defeased bonds) at September 30 (in millions) are as follows:			MATURITIES		AVERAGE INTEREST RATE PERCENTAGE		
			AMOUNTS ISSUED	OUTSTANDING 9/30/2001		FIRST YEAR	LAST YEAR
<b>GENERAL OBLIGATION BONDED DEBT</b>							
General Obligation Refunding Debt:							
Series 2001 (Refunding)	\$	183.3	\$	183.3	2002	2016	4.76
Recreation and Environmental Protection:							
Series 1989 (1)		75.0		28.2	1991	2011	6.92
Series 1992 (1)		246.3		120.4	1993	2012	6.15
College Savings Bonds - Series 1992 Mini-bonds (1)		.5		.8	2012	2012	6.50
Series 1992 A (1)(2)		13.9		9.4	1994	2012	6.17
Series 1993 (1)(2)		16.7		12.8	1995	2013	5.00
Series 1995 (1)		234.3		143.7	1996	2019	5.28
Series 1998 (1)		90.0		80.3	1998	2017	4.80
Series 1999 A (3)		81.8		81.8	2004	2020	5.57
Series 1999 B (3)		15.1		10.5	2001	2003	6.75
Series 2000 (1)		60.0		60.0	2002	2021	5.22

**Michigan**  
**Notes to the Financial Statements**

			MATURITIES		AVERAGE
	AMOUNTS	OUTSTANDING	FIRST	LAST	INTEREST
	ISSUED	9/30/2001	YEAR	YEAR	RATE
					PERCENTAGE
School Loan Bonds:					
Series 1995	180.0	65.3	1996	2015	5.47
Series 1998	160.0	154.1	2000	2017	4.86
Series 2001 A	81.3	81.3	2005	2021	3.50
TOTAL GENERAL OBLIGATION BONDED DEBT	1,438.2	1,031.8			
<b>REVENUE DEDICATED BONDED DEBT</b>					
<u>MUSTFA Related:</u>					
Tax Dedicated Bonds:					
1996 - Revenue Bonds - Series I	216.6	152.5	1997	2010	5.67
TOTAL REVENUE DEDICATED BONDED DEBT - MUSTFA RELATED	216.6	152.5			
<u>Transportation Related:</u>					
Tax Dedicated Bonds:					
Michigan Comprehensive Transportation:					
Series 1992 (Series A and Series B Refunding)	165.0	104.7	1996	2022	5.96
Series 1996 (Series A Refunding)	22.7	22.4	1998	2014	5.42
Series 1998 (Series A Refunding)	38.6	38.6	2004	2010	4.66
Series 2001 (Series A Refunding)	27.8	27.8	2008	2022	5.01
State Trunkline Fund Bonds:					
Series 1989 (Series A)	135.8	24.9	1994	2017	6.97
Series 1992 (Series A and Series B Refunding)	353.2	172.3	1999	2021	6.16
Series 1994 (Series A and Series B Refunding)	241.0	34.4	1994	2007	5.53
Series 1996 (Series A)	54.5	10.3	1997	2009	5.71
Series 1998 (Series A)	377.9	377.9	2005	2026	5.09
Series 2001 (Series A)	308.2	308.2	2003	2031	5.27
TOTAL REVENUE DEDICATED BONDED DEBT - TRANSPORTATION RELATED	1,724.6	1,121.5			
<u>State Building Authority:</u>					
1993 Revenue Bonds – Refunding Series I	491.5	288.4	1994	2016	4.58
1994 Series I Bonds	39.8	25.8	1995	2012	5.07
1994 Series II Bonds	29.1	20.9	1996	2011	4.62
1996 Series I Bonds	109.9	76.8	1997	2010	5.04
1997 Series I Bonds	144.8	111.0	1997	2010	5.18
1997 Series A Bonds	34.3	23.0	1997	2006	4.76
1997 Series B Bonds	42.9	1.3	1997	2001	4.51
1997 Series II Bonds	371.9	325.0	1997	2014	5.53
1998 Series I Bonds	109.5	98.5	1998	2014	4.84
1998 Series I Bonds Refunding	330.4	315.3	1999	2021	4.75
1999 Series I	85.7	80.1	1999	2016	4.54
2000 Revenue Bonds	45.8	45.8	2002	2012	5.63
2000 Series I Bonds	147.9	147.9	2002	2022	5.24
2001 Series I Bonds	121.7	121.7	2002	2019	5.28
2001 Revenue Bonds	58.2	58.2	2002	2014	5.13
2001 Series I Refunding Bonds	419.7	419.7	2003	2026	5.31
TOTAL STATE BUILDING AUTHORITY BONDED DEBT	2,583.1	2,159.3			
TOTAL REVENUE DEDICATED BONDED DEBT	4,524.3	3,433.3			
TOTAL GENERAL OBLIGATION AND REVENUE DEDICATED BONDED DEBT	<u>\$ 5,962.5</u>	<u>\$ 4,465.1</u>			

(1) Public Act 327 of 1988 and P.A. 451 of 1994 authorized the issuance of bonds totaling \$800 million. As of September 30, 2001, \$676.6 million of such bonds had been issued, leaving remaining authorization of \$123.4 million. Sum of amounts issued in table differs by amount of bonds refunded or redeemed.

(2) The \$13.9 million Series 1992A and the \$16.7 million Series 1993, Recreation and Environmental Protection General Obligation Bonds, were used to provide a contribution of capital to the Michigan Municipal Bond Authority (a discretely presented

component unit). An outside trustee for the Authority is holding the bonds as an investment of the Authority; no immediate cash proceeds were provided. The trustee receives the debt service payments on the bonds, which are negotiable instruments held to subsidize water pollution control financing provided by the Authority.

(3) Public Act 284 of 1998 authorized the issuance of bonds totaling \$675.0 million. As of September 30, 2001, \$96.9 million of such bonds had been issued, leaving remaining authorization of \$578.1 million.

**Michigan**  
**Notes to the Financial Statements**

**Capital Appreciation Bonds**

Capital appreciation and convertible capital appreciation bonds are recorded in the preceding table and section C at their

accreted year-end book value. The tables which follow summarize capital appreciation bonds (in millions):

	ACCREDITED BOOK VALUE	ULTIMATE MATURITY VALUE	MATURITY DATES
<b>State Building Authority:</b>			
1994 Series II	\$ 19.6	\$ 24.2	2000-2012
1997 Series II	29.3	42.5	2000-2012
<b>General Obligation Bonds:</b>			
Series 1989	32.5	44.4	2011
Series 1992	21.4	30.5	2012
College Savings Bonds - Series 1992 Mini-bonds	.8	1.8	2012
Series 1995	22.4	29.4	2001-2010
<b>Revenue Dedicated – Transportation Related:</b>			
State Trunkline - Series 1989 A	24.9	35.7	2004-2009
State Trunkline - Series 1992 A and B	61.1	97.7	2005-2012

**Advance Refundings and Defeasances**

The State has defeased certain bonds by placing the proceeds of new bonds (i.e., the "refunding" bonds in the table of bonds issued and outstanding) in irrevocable trust to provide for all future debt service on the old bonds. Accordingly, the trust account assets

and the liability for the defeased bonds are not recorded as assets or liabilities in these statements and are not included in the other debt tables in this note.

The following table summarizes the defeased bonds outstanding at September 30 (in millions):

	AMOUNTS OUTSTANDING
<b>Recreation and Environmental Protection:</b>	
Series 1989	\$ 2.5
Series 1992	69.1
Series 1995	74.4
Total	<u>\$ 145.9</u>
<b>School Loan Bonds:</b>	
Series 1995	<u>\$ 84.5</u>
<b>Michigan Comprehensive Transportation:</b>	
Series 1992 A	<u>\$ 32.4</u>
<b>State Trunkline Fund Bonds:</b>	
Series 1992 A (partial)	\$ 131.2
Series 1992 B (partial)	56.8
Series 1994 A (partial)	112.8
Series 1996 A (partial)	41.2
Total	<u>\$ 342.0</u>
<b>State Building Authority:</b>	
1982 Series III	\$ 19.3
1988 Series I	5.9
1988 Series II	5.3
1989 Series I	46.4
1990 Series II	124.3
1991 Series I Refunding	197.0
1991 Series II	131.6
1992 Series I	133.9
1992 Series II A	30.3
Total	<u>\$ 694.1</u>

**Michigan**  
**Notes to the Financial Statements**

**Debt Service Requirements**

The following table summarizes debt service requirements for outstanding bonds (in millions):

FISCAL YEARS ENDING	GENERAL OBLIGATION		MUSTFA AND TRANSPORTATION RELATED		STATE BUILDING AUTHORITY		TOTAL PRINCIPAL AND INTEREST
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2002	\$ 49.0	\$ 39.9	\$ 45.9	\$ 58.7	\$ 106.5	\$ 103.0	\$ 402.9
2003	51.8	38.5	53.7	60.2	125.9	103.0	433.0
2004	54.4	43.3	56.6	57.4	132.2	96.3	440.1
2005	56.7	40.9	60.4	54.5	138.9	89.0	440.4
2006	57.9	38.1	63.8	51.6	118.3	82.4	412.1
2007-2011	318.8	153.7	318.1	216.1	624.3	332.9	1,963.9
2012-2016	316.7	75.3	214.0	160.0	497.9	178.9	1,442.9
2017-2021	148.7	15.6	257.1	99.0	288.2	66.7	875.4
2022-2026	-	-	158.6	40.3	127.2	11.8	338.0
2027-2032	-	-	93.3	12.4	-	-	105.7
Total	\$ 1,054.0	\$ 445.3	\$ 1,321.5	\$ 810.2	\$ 2,159.3	\$ 1,064.1	\$ 6,854.3

Interest to maturity for the State Building Authority will be significantly smaller than the amount shown in the above table because many of the bonds will be called prior to the final scheduled maturity date. The retirement of these bonds varies from project to project, as each bond issue is related to specific projects and any excess borrowing and accrued investment earnings are restricted to projects and debt service on the related bonds. State Building Authority debt service fund unreserved fund balances totaled \$226.9 million at year-end. Most of this represents investments related to completed projects that will be used for debt service on the projects' bonds.

Some of the bonds of the State Building Authority carry variable interest rates and interest on these has been projected using an average interest rate.

**B. Other General Long-Term Obligations**

**Capital Leases**

This liability is described in more detail in Note 13.

**Compensated Absences**

This liability is described in Note 12.

**Claims and Judgments**

In general, expenditures and fund liabilities are not recorded in governmental funds for claims and judgments until they are considered "due and payable" at September 30 and the related losses are certain. Liabilities for material claims and judgment losses are recorded in the government-wide and proprietary fund financial statements when the loss is considered probable.

**Workers' Compensation**

The gross amount of workers' compensation liability, \$299.3 million at September 30, 2001, has been recorded at its discounted present value of \$199.9 million, using a discount rate of 8%. The present value of the current portion of this liability is \$45.1 million. The Accident Fund Company billed State agencies for actual workers' compensation claims paid plus administrative fees, totaling \$51.1 million in fiscal year 2000-2001.

**Other Claims & Judgments**

The governmental activity estimated liability for litigation losses, \$632.5 million at September 30, 2001, includes amounts for litigation, such as damages in tort cases and refund claims in cases involving State taxes, transportation claims, natural resources and environmental quality claims, and other claims, in which it is considered probable that a loss will be incurred. Also included is an estimated liability totaling \$5.4 million for arbitrage payable to the federal government for interest earned on bond proceeds. Where a range of potential loss exists, the amount recorded is based upon the expected minimum amount that will be lost if the State does, indeed, lose. The allowance also includes projections for highway related negligence cases based upon historical loss ratios. The State continues to vigorously contest all of these claims and the State may incur no liability in the individual cases involved. Therefore, the allowance for litigation losses may be overstated (to the extent that losses do not occur) or understated (if the State losses exceed the projected minimums which have been recorded). The maximum potential loss on the allowance for estimated litigation losses is not considered reasonably measurable.

The liability recorded for other claims and judgments within business-type activities represents overpayments by employers to the Michigan Unemployment Compensation Fund totaling \$42.0 million.

**Durant Settlement**

The reported estimated liability for litigation losses includes the Donald Durant, et al v State of Michigan, et al consolidated cases, which totaled \$451.0 million at September 30, 2001. This amount will, over time, be paid to each "non-Durant" school district for its underfunded State mandated program costs if certain requirements are met. See Note 26 for additional disclosure regarding the Durant case and other contingencies.

Fund expenditures for workers' compensation and settled litigation with long-term repayment provisions are recognized on the "due and payable" basis. Other losses are recognized as fund liabilities in the year of settlement, except that cases settled shortly after year-end are recognized as fund liabilities using a sliding materiality scale that increases from recognizing all losses in early October to recording only settlements in excess of \$1.5 million after November 30.

**Net Pension Obligation**

This liability is described in Note 11.

**Michigan**  
**Notes to the Financial Statements**

**C. Changes in Long-Term Liabilities**

Changes in long-term liabilities for the year ended September 30, 2001, are summarized as follows (in millions):

<b>Governmental Activities</b>	<b>Beginning Balance (Restated)</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>	<b>Amounts Due Thereafter</b>
<b>Bonds Payable:</b>						
General obligation debt	\$ 930.3	\$ 328.8	\$ 227.3	\$ 1,031.8	\$ 49.0	\$ 982.8
Revenue bonds	1,003.6	341.3	70.8	1,274.0	45.9	1,228.1
State Building Authority	1,825.9	795.8	462.4	2,159.3	106.5	2,052.9
<b>Notes Payable:</b>						
Transportation related	-	400.0	-	400.0	-	400.0
State Building Authority	131.9	-	131.9	-	-	-
<b>Deferred Loss on Refundings:</b>						
General obligation debt	-	(11.7)	.3	(11.5)	-	(11.5)
Revenue dedicated debt	-	(.7)	-	(.7)	-	(.7)
State Building Authority	-	(8.2)	.1	(8.2)	-	(8.2)
<b>Unamortized Premiums:</b>						
General obligation debt	-	14.4	.3	14.0	-	14.0
Revenue dedicated debt	-	4.5	-	4.5	-	4.5
State Building Authority	-	26.0	.6	25.5	-	25.5
<b>Other Debt:</b>						
State Building Authority						
Commercial paper	348.1	653.8	694.5	307.4	137.3	170.1
Total bonds and notes payable	4,239.7	2,543.8	1,588.2	5,196.1	338.7	4,857.5
<b>Other Long-term Liabilities:</b>						
Capital lease obligations	278.2	42.2	65.6	254.8	30.4	224.4
Compensated absences	468.3	227.0	257.6	437.7	20.6	417.1
Workers' compensation	195.0	48.9	44.0	199.9	45.1	154.8
Net pension obligations	20.5	.7	1.6	19.5	-	19.5
Other claims & judgments	596.4	612.8	576.6	632.5	109.9	522.6
Durant settlement	509.6	-	58.7	451.0	60.0	391.0
Total other liabilities	2,068.1	931.6	1,004.2	1,995.4	265.9	1,729.5
<b>Total Long-term Liabilities</b>	<b>\$ 6,307.8</b>	<b>\$ 3,475.4</b>	<b>\$ 2,592.4</b>	<b>\$ 7,191.5</b>	<b>\$ 604.6</b>	<b>\$ 6,587.0</b>
<b>Business-type Activities</b>						
<b>Other Long-term Liabilities:</b>						
Lottery prize awards*	\$ 823.8	\$ -	\$ 59.8	\$ 764.0	\$ 148.4	\$ 615.6
Compensated absences	4.6	1.0	2.5	3.1	.5	2.6
Other claims & judgments	-	42.0	-	42.0	-	42.0
<b>Total Long-term Liabilities</b>	<b>\$ 828.4</b>	<b>\$ 43.0</b>	<b>\$ 62.3</b>	<b>\$ 809.1</b>	<b>\$ 148.9</b>	<b>\$ 660.3</b>

\*The amounts due within one year are included with "Accounts payable and other liabilities" on the Statement of Net Assets.

The General Fund, special revenue, and internal service funds in which the leases are recorded will liquidate the capital lease obligations. The compensated absence and workers' compensation liabilities will be liquidated by the applicable governmental and internal service funds that account for the

salaries and wages of the related employees. The net pension obligations will be liquidated by the State's governmental and internal service funds that contribute toward the pension funds, based on the statutorily required contribution rates. The School Aid Fund will liquidate the Durant settlement. Other claims and judgments attributable to the governmental activities will generally be liquidated by the General Fund and transportation related special revenue funds.